

# **Housing and Economic Recovery Act of 2008**

## **Federal Housing Trust Fund**

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# Background

- The Housing and Economic Recovery Act of 2008 passed Congress and was signed into law by the President in late July
- Bill includes a number of major initiatives including regulatory reform and new funding intended to address the foreclosure crisis and affordable housing more broadly
- Federal Housing Trust Fund created to help address the affordable housing needs of low income households

# Funding Source

- Requires Fannie Mae and Freddie Mac to set aside 4.2 ¢ from every \$100 worth of mortgages purchased and securitized
- Money used to support three new housing-related initiatives, including the trust fund
  - 100% in 2009, 50% in 2010, and 25% in 2011 to support FHA Hope for Homeowners initiative
  - 65% of the remainder to support Federal Trust Fund
  - 35% of remainder to support Capital Magnet Fund at Treasury

# Funding Amounts

- Congressional Budget Office has estimated that the aggregate budget authority for the trust fund portion will equal \$5.8 billion for the period FY 2010-2018
- Projections are that actual outlays will average at least \$419 million per year
- Funding contingent on the financial performance of the GSEs

# Fund Distribution Methodology

- States will receive funds and designate an appropriate instrumentality to administer the program
- HUD has one year to establish a formula by regulation for the distribution of the funds
- Congress prescribed key provisions of the formula within the Act

# Fund Distribution Methodology

- Stipulated formula factors:
  - The shortage in available and affordable standard rental units for extremely low-income renter households
  - The shortage in available and affordable standard rental units for very low-income renter households
  - The number of extremely low-income renter households that lack complete plumbing facilities, are overcrowded, or with high housing costs; and
  - The number of low-income households with high housing costs
- Formula adjusted by each state's relative cost of construction
- Minimum of \$3 million will be available to each state

# Two Purposes of the Trust Fund

- Increase and preserve the supply of rental housing for extremely low- and very low-income families, including homeless families
- Increase homeownership for extremely low- and very low-income families

# Eligible Activities

- The bulk of the housing assistance is reserved for the production, preservation and rehabilitation of rental housing
  - 75% or more must be used for the benefit of extremely low-income families (at or below 30% AMI) or families with incomes at or below the poverty level
  - No more than 25% may be used for very low-income families ( $\geq 30$  -  $\leq 50$  % AMI)



# Eligible Activities

- No more than 10% can be used to support homeownership
- Homeownership component permits the use of funds for such activities as down payment assistance, closing cost assistance, and interest rate buy-downs
- Eligible homebuyers must meet the same (65% ELI-35% VLI) benefit requirements as renters and be first-time homebuyers
- Homes must meet federal purchase price limits and be subject to resale restrictions relevant to the location of the housing
- Homebuyers would also have to complete a financial education and counseling program

# Other Program Requirements

- States have two years to use or commit each year's grant amounts, subject to recapture
- Limited to using no more than ten percent of the annual grant for administrative costs (including home ownership counseling)
- Fund recipients must demonstrate levels of experience and organizational capacity sufficient to operate such a program successfully

# Ramifications for State Housing Trust Fund Proposal

- Federal Trust Fund provides a new resource but is very narrowly targeted
- While a valuable resource, the new Federal Trust Fund is not broad enough to cover Virginia's full range of housing needs
- Any State created trust fund should be:
  - flexible and have the ability to be coordinated with the Federal Trust Fund, and
  - be structured to address those areas of housing needs that the federal initiative does not cover
- Both trust funds should share a common administrative regime for efficiency purposes